

Utah Counties Indemnity Pool

**FINANCIAL STATEMENTS, INDEPENDENT AUDITOR'S REPORT, REQUIRED
SUPPLEMENTARY INFORMATION AND OTHER INDEPENDENT AUDITOR'S REPORTS**

For the Year Ended December 31, 2016



UTAH COUNTIES INDEMNITY POOL

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Independent Auditor's Report

The Board of Directors
Utah Counties Indemnity Pool

We have audited the accompanying financial statements of **Utah Counties Indemnity Pool** as of and for the year ended December 31, 2016, and the related notes to the financial statements, as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of **Utah Counties Indemnity Pool** as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5-9, the reconciliation of the claims liability and loss and loss adjustment expenses on page 29, the contributions and loss development information on page 31, the schedule of the proportionate share of the net

pension liability on page 32, and the schedule of contributions on page 33 be presented to supplement the basic financial statements.

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2017, on our consideration of the Pool's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Larson & Company P.C.

Salt Lake City, Utah
April 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

UTAH COUNTIES INDEMNITY POOL

Management's Discussion and Analysis

(Unaudited)

Year Ended December 31, 2016

In conformity with Governmental Accounting Standards Board (GASB) Statement No. 34, the management of the Utah Counties Indemnity Pool (the Pool or UCIP) presents this Management's Discussion and Analysis for the readers of UCIP's financial statements. Our intent is to provide a narrative overview and analysis of the financial activities of UCIP for the fiscal year ended December 31, 2016. Readers are encouraged to consider this information in conjunction with the financial statements, notes to the financial statements and required supplementary information included in the independent auditor's report.

FINANCIAL STATEMENTS PROVIDED

Included in the independent auditor's report are the basic financial statements required under the GASB standards including:

- Statement of Net Position – Accounts for all assets, deferred outflows or resources, liabilities and deferred inflows of resources of UCIP as of December 31, 2016, showing the balance of net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) as of that date.
- Statement of Revenues, Expenses, and Changes in Net Position – Accounts for all revenue and expenses accrued for the fiscal period, with calculation of the change in net position (revenue minus expenses) for the period. Expenses are classified as Operating Expenses (primarily consisting of expected losses to be paid and the cost of excess insurance covering catastrophic losses) and Administrative Expenses (primarily consisting of staff salaries and benefits and office operations). Expenses are further categorized to provide a level of detail appropriate for general management overview and control.
- Statement of Cash Flows – Accounts for all revenues and expenses received or paid during the fiscal period with a calculation of net increase in cash and cash equivalents (revenue minus expenses) and total cash and cash equivalents at the end of the period. This statement provides a contrasting view of the revenues and expenses from the Statement of Revenues, Expenses, and Changes in Net Position as it accounts for revenues and expenses that were actually received or paid during the period, regardless of when the revenue was earned or due, or when the expense was accrued or invoiced.

BASIS OF ACCOUNTING METHODS

Financial statements provided in this report are reported using the Governmental Accounting Standards Board (GASB) basis of accounting. Traditional insurance companies often utilize statutory accounting methods in development of their financial statements that differ significantly from GASB accounting methods. Attempts to perform simple comparisons or benchmark analysis of a commercial carrier's financial reports and the financial reports contained here will likely yield distorted results.

CONDENSED FINANCIAL INFORMATION

The following Condensed Financial Statements are meant to provide a summary view of the audited financial statements as support for comments and analysis of the financial condition of UCIP offered by management in this letter.

UTAH COUNTIES INDEMNITY POOL

Management's Discussion and Analysis

(Unaudited)

Year Ended December 31, 2016

Assets and Liabilities

Current and other assets decreased \$1,306,286 at year end 2016 compared to the prior year end while investments increased \$247,044 for the same period. Capital assets decreased \$2,832 as a result of depreciation. Deferred outflows of resources in the amount of \$155,055 in the year 2016 and \$75,814 in prior year 2015 are reflected for the first time as a result of the implementation of GASB 68. Deferred outflows related to pensions increased \$79,241. Total assets decreased \$993,622 at year end 2016.

Total liabilities at year end 2016 decreased \$2,474,324 over year end 2015. This decrease was primarily the result of a \$2,285,242 decrease in member contributions paid in advance. Noncurrent liabilities in the year 2016 and 2015 are reflected for the first time as a result of the implementation of GASB 68, Accounting and Financial Reporting for Pensions. The new statement requires employers providing defined benefit pensions through pension plans administered as trusts, to recognize their long-term obligation for those benefits as a liability. The Pool provides a defined pension plan to certain employees through the Utah Retirement Systems (URS) and therefore, met the implementation criteria. As a result, the Pool has recorded a noncurrent liability of \$239,964 in 2016 and \$179,248 in 2015. Inflows related to pensions amounted to \$24,330 in 2016. Consistent with the statement requirements, the beginning balance has been recorded as a component of net position as there is inadequate information to restate the prior year.

In 2016 and 2015, net position increased by \$1,480,703 and increased by \$826,325, respectively, during the fiscal years.

The condensed statements of net assets for the years ended 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
Assets:			
Current and other assets	\$ 8,914,931	\$10,221,218	\$ (1,306,287)
Capital assets	538,896	541,728	(2,832)
Investments	3,749,269	3,502,225	247,044
Security Deposit	-	10,788	(10,788)
Outflows related to pensions	155,055	75,814	79,241
Total assets	<u>\$13,358,151</u>	<u>\$14,351,773</u>	<u>\$ (993,622)</u>
Liabilities:			
Current and other liabilities	\$ 550,970	\$ 2,791,704	\$ (2,240,734)
Reserve for losses and loss adjustment	7,889,991	8,185,675	(295,684)
Noncurrent liabilities	239,964	179,248	60,716
Inflows related to pensions	24,330	22,952	1,378
Total liabilities	<u>8,705,255</u>	<u>11,179,579</u>	<u>(2,474,324)</u>
Net position:			
Invested in capital assets	538,896	541,728	(2,832)
Unrestricted	4,114,000	2,630,466	1,483,534
Total net position	<u>4,652,896</u>	<u>3,172,194</u>	<u>1,480,703</u>
Total liabilities and net position	<u>\$13,358,151</u>	<u>\$14,351,773</u>	<u>\$ (993,621)</u>

UTAH COUNTIES INDEMNITY POOL

Management's Discussion and Analysis

(Unaudited)

Year Ended December 31, 2016

Operating Revenue and Expense

Revenue from contributions increased \$678,849 for a total of \$5,829,233 in 2016. This increase is attributed to an increase in member exposures. Other income decreased \$19,318 primarily from the depreciation of capital assets. Operating expenses increased \$163,239 from the prior year due to an increase in loss and loss adjustment expenses.

The condensed statements of operating revenue and expense for the years ended 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
Operating revenue:			
Contributions	\$ 5,829,233	\$ 5,150,384	\$ 678,849
Investment income	350,831	199,586	151,245
Other income	15,576	34,894	(19,318)
Total operating revenues	<u>6,195,640</u>	<u>5,384,864</u>	<u>810,776</u>
Operating expenses:			
Loss and loss adjustment expenses	2,221,206	2,001,894	219,312
Reinsurance coverage	1,596,268	1,595,540	728
Administration	899,494	956,295	(56,801)
Total operating expenses	<u>4,716,968</u>	<u>4,553,729</u>	<u>163,239</u>
Net operating income	1,478,672	831,135	647,537
Unrealized loss on investments	2,029	(4,810)	6,839
Change in net position	<u>\$ 1,480,701</u>	<u>\$ 826,325</u>	<u>\$ 654,376</u>

Investments

As a governmental subdivision regulated by the Money Management Council, UCIP invests the majority of funds in the Public Treasurers' Investment Fund (PTIF). Utilizing this "safe harbor" for compliance with the Money Management Act also provides UCIP significant liquidity and protection of capital in its invested assets. In 2011, UCIP moved \$2,000,000 of invested funds to Zions Capital Advisors in anticipation of increasing investment rates. While investments with Zions Capital Advisors outperformed the PTIF by a small amount in 2016 and 2015, it is anticipated these investments will outpace the PTIF more significantly as the market strengthens.

Equity investments consist of equity ownership in County Reinsurance Limited (CRL), a property and liability reinsurance pool of county based pools across the United States. UCIP is a member of CRL.

UTAH COUNTIES INDEMNITY POOL

Management's Discussion and Analysis

(Unaudited)

Year Ended December 31, 2016

The condensed statements of cash and cash equivalents and investments for the years ended 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
Cash and cash equivalents:			
Cash on deposit	\$ 2,067,027	\$ 891,207	\$ 1,175,820
Public Treasurers' Investment Fund	6,190,423	8,683,921	(2,493,498)
Zions Capital Advisors	36,261	254,440	(218,179)
Total cash and cash equivalents	<u>8,293,711</u>	<u>9,829,569</u>	<u>(1,535,859)</u>
Investments:			
Investments - U.S. government securities	2,086,198	1,838,236	247,962
Equity investment in County Reinsurance Limited	2,049,154	1,814,158	234,996
Land held for sale	-	-	-
Total investments	<u>4,135,352</u>	<u>3,652,394</u>	<u>482,958</u>
Total cash and cash equivalents and investments	<u><u>\$12,429,063</u></u>	<u><u>\$13,481,963</u></u>	<u><u>\$ (1,052,901)</u></u>

Financial Position

The Net Asset Management Plan was adopted by the Board to actively manage UCIP's net position between 100-200% of annual revenue. The plan provides that when net position exceeds 100% of annual revenue, the Board should issue dividends as experience dividends and/or equity dividends based on the UCIP Dividend Policy. Based on the 2017 member contributions of \$6,099,857, the surplus (net position) to contributions (revenue) ratio at year end 2016 was within industry standards.

The condensed statements of changes in net position for the years ended 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
Revenues and expenses:			
Revenues	\$ 6,197,669	\$ 5,380,054	\$ 817,615
Expenses	<u>4,716,968</u>	<u>4,553,729</u>	<u>163,239</u>
Net income (loss)	1,480,701	826,325	654,376
Net position, beginning of year	3,172,195	2,502,168	670,027
Prior period adjustment	-	(156,299)	156,299
Net position, beginning of year, as restated	<u>3,172,195</u>	<u>2,345,869</u>	<u>826,326</u>
Net position, end of year	<u><u>\$ 4,652,896</u></u>	<u><u>\$ 3,172,194</u></u>	<u><u>\$ 1,480,702</u></u>

BUDGET

Revenue

Actual 2016 revenues were \$316,764 more than budgeted due to investment income performance.

UTAH COUNTIES INDEMNITY POOL

Management's Discussion and Analysis

(Unaudited)

Year Ended December 31, 2016

Losses and Reinsurance Expenses

Actual 2016 expenses were \$1,131,033 less than budgeted due primarily to a decrease in losses and loss adjustment expenses.

Administrative Expenses

Management closely monitored budgeted administrative expenses of \$1,048,000 and was able to operate with actual expenses of \$899,494. The savings on actual to budgeted expenses was achieved primarily in the area of office operations.

MARKET TRENDS IN 2017

Management anticipates continued competitive pressure due to protracted soft market conditions. To counteract this trend, management and the Board have worked to expand member services and strengthen its relationship with the Utah Association of Counties, which originally created UCIP.

Property

Changes in catastrophic loss models which significantly increased the modeled earthquake loss exposure for the entire state of Utah in 2011 were updated early in 2013 and again in 2015 with some reduction in the modeled earthquake exposure for portions of Utah, which may provide some relief on property reinsurance premiums from that budgeted for 2017.

Liability

While the overall market conditions are believed to remain competitive, signs of carriers increasing liability premiums continue into 2017. Most notably is the industry's move to exclude cyber liability risk from standard general liability and errors and omissions forms without a corresponding rate reduction, while selling this coverage as a new separate policy form for significant additional premium. Eventually, the liability market will increase premiums to improve their combined ratios to attract investors. This eventual "hardening" of the market will relieve some competitive pressure, but will also create increased reinsurance costs.

Questions concerning any of the information in this report, or any other matters related to UCIP's budget and finances should be addressed to the Chief Financial Officer, Utah Counties Indemnity Pool, 5397 S Vine, Murray, UT 84107.

UTAH COUNTIES INDEMNITY POOL

Statement of Net Position

As of December 31, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 8,293,710
Short-term investments	386,083
Accounts receivable	75
Net pension asset	8
Prepaid expenses	235,055
TOTAL CURRENT ASSETS	8,914,931

INVESTMENTS 3,749,269

PROPERTY AND EQUIPMENT 538,896

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions 155,055

TOTAL ASSETS AND
DEFERRED OUTFLOWS OF RESOURCES \$ 13,358,151

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Reserves for losses and loss adjustment expenses	\$ 7,889,991
Accounts payable	27,259
Accrued expenses	89,555
Contributions paid in advance	434,156
TOTAL CURRENT LIABILITIES	8,440,961

NONCURRENT LIABILITIES

Net pension liability 239,964

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions 24,330

NET POSITION

Net investment in capital assets	538,896
Unrestricted	4,114,000
TOTAL NET POSITION	4,652,896

TOTAL LIABILITIES, DEFERRED INFLOWS
OF RESOURCES AND NET POSITION \$ 13,358,151

UTAH COUNTIES INDEMNITY POOL
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016

OPERATING INCOME	
Contributions	\$ 5,829,233
Investment income	350,831
Other income	15,576
TOTAL OPERATING INCOME	<u>6,195,640</u>
UNDERWRITING EXPENSES	
Losses and loss adjustment expenses	2,221,206
Reinsurance coverage	1,596,268
TOTAL UNDERWRITING EXPENSES	<u>3,817,474</u>
ADMINISTRATION EXPENSES	
Trustees	43,788
Depreciation	3,763
Risk management	42,263
Public relations	11,306
Office	78,732
Financial	120,144
Personnel	599,498
TOTAL ADMINISTRATION EXPENSES	<u>899,494</u>
TOTAL OPERATING EXPENSES	<u>4,716,968</u>
NET OPERATING INCOME	<u>1,478,672</u>
OTHER INCOME EXPENSES	
Unrealized gain on marketable securities	2,029
TOTAL OTHER EXPENSES	<u>2,029</u>
CHANGE IN NET POSITION	1,480,701
NET POSITION AT BEGINNING OF YEAR	<u>3,172,195</u>
NET POSITION AT END OF YEAR	<u>\$ 4,652,896</u>

UTAH COUNTIES INDEMNITY POOL

Statement of Cash Flows
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Contributions collected	\$ 3,546,803
Other fees collected	15,576
Reinsurance paid	(1,592,848)
Losses and loss expenses paid	(2,516,890)
Cash paid to employees	(597,368)
Other administrative expenses paid	(260,104)

CASH FLOWS FROM OPERATING ACTIVITIES (1,404,831)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(2,846,683)
Sale of investments	2,600,000
Investment income	115,656

NET CASH FLOWS FROM INVESTING ACTIVITIES (131,027)

NET INCREASE IN CASH AND CASH EQUIVALENTS (1,535,858)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 9,829,568

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 8,293,710

RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH

Change in net position	<u>\$ 1,480,701</u>
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Adjustments to reconcile change in net position to

Depreciation	3,763
Interest on investments	(115,833)
Increase in equity in CRL	(234,996)
Net outflows of resources relating to pension	(17,037)
Unrealized gain on investments	(2,029)
Accounts receivable	2,812
Prepaid expenses	3,420
Security deposits	10,788
Reserves for loss and loss adjustment expenses	(295,684)
Accounts payable	25,341
Accrued expenses	19,167
Contributions paid in advance	(2,285,242)
Total adjustments	<u>(2,885,530)</u>

NET CASH USED BY OPERATING ACTIVITIES \$ (1,404,831)

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Utah Counties Indemnity Pool (the Pool or UCIP) was incorporated in December 1991 as the Utah Association of Counties Insurance Mutual (the Mutual). In July 2003, the Mutual was renamed the Utah Counties Insurance Pool. In January 2012, the Pool was renamed the Utah Counties Indemnity Pool. The Pool is a non-profit Interlocal entity formed under Section 11-13-101 et. seq. Utah Code Annotated, 1953 as amended, operated as a joint liability reserve fund under Section 63G-7-703 and 801 for counties who enter into the Interlocal Agreement that creates UCIP. The Pool is referred to as a: “public agency insurance mutual” under the insurance statutes of the State of Utah, Section 31A-1-103(7). All of the Pool’s business activities are conducted in the State of Utah.

Accounting Principles

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP). The Pool has adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments, GASB Statement No. 37, Basic Financial Statement and Management’s Discussion and Analysis for State and Local Governments: Omnibus, and GASB Statement No. 38, Certain Financial Statement Note Disclosures. The Pool has also adopted GASB Statement No. 40, Deposit and Investment Risk Disclosures, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions. With the implementation of these statements, the Pool has prepared required supplementary information titled “Management’s Discussion and Analysis” which precedes the basic financial statements, has prepared a balance sheet classified between current and noncurrent assets and liabilities, has categorized net position as net invested in capital assets and unrestricted, has prepared the statements of cash flows on the direct method, has adjusted the beginning net position to conform to the changes of GASB 68 related to pensions and related items, and provided additional schedules to better communicate the financial status of the governmental entity.

The accounting policies of the Pool conform to accounting principles generally accepted in the United States of America in all material respects. The following is a summary of the more significant policies.

Basis of Accounting

The Pool reports as a single enterprise fund and uses the accrual method of accounting and the economic resources measurement focus. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Pool is exempt from the payment of income taxes under Section 115 of the Internal Revenue Code.

Compensated Absences

Accumulated unpaid vacation and sick pay amounts are accrued when benefits vest to employees and the unpaid liability is reflected as accrued expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Pool considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents. Therefore, the investments in the Utah Public Treasurers' Fund (PTIF) and cash on deposit are considered to be cash equivalents.

Investments

Investments are comprised of various U.S. Government securities, certificates of deposit and investments in County Reinsurance Limited (CRL).

Investments in U.S. Government securities as of December 31, 2016 consist of held-to-maturity securities. Held-to-maturity securities are reported at cost, adjusted for amortization of premiums and accretion of discounts that are recognized in interest income using the effective interest method over the period to maturity.

The investments in CRL are valued using the equity method of accounting. Under the equity method, the Pool recognizes its proportionate share of the net earnings or losses of CRL, which represents its share of the undistributed earnings or losses of CRL.

Investment Valuation

The Pool categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value:

- Level 1 inputs are quoted prices in active markets for identical assets;

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Valuation (Continued)

- Level 2 inputs are significant other observable inputs;
- Level 3 inputs are significant unobservable inputs.

Contributions Paid in Advance

Contributions paid by members prior to January 1 of the next calendar year are considered to be deferred until January 1 and are reported as liabilities in the statement of net assets.

Ancillary Coverages

The Pool assists members in placing coverage for exposures not included in the coverage addendum, i.e., aircraft hull, airport liability, bonds, builder's risk, excess cyber liability, and workers compensation. The Pool does not receive any fees on monies collected for member coverage placement.

Contributions

Contributions are collected annually on January 1.

Capital Assets

Capital assets are defined by the Pool as assets with an initial individual cost of more than \$500. Capital assets are stated at cost less accumulated depreciation. Depreciation on furniture, equipment and electronic data processing equipment is provided over the estimated useful lives of the assets on the straight-line method. Useful lives vary from three to five years. Depreciation expense for the year ended December 31, 2016 amounted to \$3,763.

Deferred Inflows/Outflows of Resources

A deferred inflow of resources is an acquisition of net assets by the Pool that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net assets by the Pool that is applicable to a future reporting period. Net position is the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources.

Net Asset Management

To assure that the Pool's assets are adequate without holding excessive net assets, the Pool manages net asset levels between 100% and 200% of annual revenue. Net assets should be controlled within a minimum of 50% and a maximum of 250% of annual revenue. The Pool utilizes a Rate Stabilization Fund and a Dividend Plan to manage net assets.

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Management (Continued)

The Rate Stabilization Fund is utilized to designate surplus to fund unexpected increases in expenses, which necessitate increases in rates short term to allow rate increases to be made incrementally, or to negate temporary rate increases. The Rate Stabilization Fund is a Board-designated portion of unrestricted net assets to be deducted from the Total Net Assets (referred to as Unrestricted Net Position on the financial statements) when determining Net Assets available for payment of dividends to members and, as required by GASB, is reported as a designation only in the notes to the financial statements. The balance in the Rate Stabilization Fund at December 31, 2016 was \$200,000.

The Dividend Plan is utilized by the Board to return excess net assets to members.

The Net Asset Management Plan indicates net assets should not exceed 250% of contributions unless the Pool has specific needs for such surplus, which may include the following: expectation of new membership; development of a new line of coverage; development of new or expanded coverage; or development of new or expanded services.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Reserves for Losses and Loss Adjustment Expenses

The reserves for losses and loss adjustment expenses include an amount actuarially determined from individual case estimates and loss reports and an amount based on past experience for losses incurred but not reported. The liabilities are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. Such liabilities are necessarily based on assumptions and estimates and while management believes that amounts are adequate, the ultimate liability may be in excess of or less than the amount provided.

The Pool's actuary provides a range of estimates of the reserves for losses and loss adjustment expenses at three levels of confidence: low (50% confidence), expected (66% confidence) and high (80% confidence). Accounting standards require the Pool to book the "expected" level of reserves on their financial statements, and does not allow for the Board to designate or delineate any other amount in the range on the financial statements. In consideration of their duty to protect public funds and the inability of the Pool to assess members if reserves are not adequate, the Board prefers to reserve for claims with greater confidence than the 66% "expected" level.

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserves for Losses and Loss Adjustment Expenses (continued)

To accomplish this, while complying with audit standards, the Board has adopted as part of their Net Asset Management Plan a Claims Deterioration Fund, an amount voluntarily designated by the Board as Net Assets to be deducted from Total Net Assets (referred to as Unrestricted Net Position on the financial statements) when determining Net Assets available for payment of dividends to members. The balance in the Claims Deterioration Fund at December 31, 2016 was \$430,000.

In 2013, the Board approved designating \$430,000 into the Claim Deterioration Fund to assure these additional funds are available if the “expected” claim reserves are ultimately found to be inadequate to pay all liabilities of the Pool. The Board believes managing Net Assets in this manner protects members from large rate increases in the event claims experience does deteriorate.

Subsequent Events

Management of the Pool has evaluated subsequent events through April 20, 2017, which is also the date the financial statements were available to be issued. No subsequent events were noted during this evaluation that requires recognition or disclosure in these financial statements.

NOTE 2- CASH AND CASH EQUIVALENTS AND INVESTMENTS

Listed below is a summary of the cash and investment portfolios as of December 31, 2016. Investing is governed by the prudent man rule in accordance with statutes of the State of Utah. All investments of the Pool are considered to have been made in accordance with these governing statutes including the State Money Management Act.

Cash and Cash Equivalents

Cash and cash equivalents of the Pool are carried at cost. The carrying amount of the cash on deposit, net of outstanding checks, is \$2,067,027 as of December 31, 2016. The corresponding bank balance of the deposits was \$2,073,533 as of December 31, 2016.

All of the Pool’s cash on deposit bank accounts are noninterest-bearing. All noninterest-bearing and other depositors’ accounts will be aggregated and insured up to the standard maximum deposit insurance amount of \$250,000 for each deposit insurance ownership category.

The Public Treasurers’ Investment Fund (PTIF) is a pooled investment fund enabling public agencies to benefit from the higher yields offered on large denomination securities. The PTIF is similar in nature to a money market fund but the PTIF is subject to oversight by the State Money Management Council and all investments in PTIF are considered to be in compliance with the State Money Management Act.

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 2- CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents (Continued)

The PTIF invests in corporate debt, U.S. Agency notes, certificates of deposit and commercial paper. The maximum final maturity of any security invested in by the PTIF is limited to five years.

The maximum weighted average life of the portfolio is limited to 90 days. There is no maturity date on an entity's investment in the PTIF. PTIF deposits are not insured or otherwise guaranteed by the State of Utah.

Zions Capital Advisors (ZCA) is an investment advisory firm certified by the State Money Management Council and all investments with ZCA are in compliance with the State Money Management Act. The maximum final maturity of any security invested in by ZCA is limited to three years. ZCA investments are not insured or otherwise guaranteed.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Pool's bank balances exceeded FDIC coverage by \$1,823,533 as of December 31, 2016.

As of December 31, 2016, the Pool's cash and cash equivalents and investments included the following:

	<u>2016</u>
Cash on deposit	\$ 2,067,026
Public Treasurers' Investment Fund	6,190,423
Zions Capital Advisors	<u>36,261</u>
Total cash and cash equivalents	<u>8,293,710</u>
Investments - debt securities	2,086,198
Equity investment in County Reinsurance Limited	<u>2,049,154</u>
Total investments	<u>4,135,352</u>
Total cash and cash equivalents and investments	<u><u>\$12,429,062</u></u>

Investments

The Pool records its investments in U.S. Government Securities at market value. The Pool records investments with County Reinsurance Limited (CRL) using the equity method of accounting. Investments in CRL are confirmed annually.

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 2- CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (continued)

All other investments are through the Public Treasurers' Investment Fund (PTIF). The differences between book value and fair value, as of December 31, 2016 are as follows:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Statement Value</u>
Securities	\$ 2,084,169	\$ 10,887	\$ (8,858)	\$ 2,086,198	\$ 2,086,198
Equity	1,814,158	234,996	-	2,049,154	2,049,154
Total investments	<u>\$ 3,898,327</u>	<u>\$ 245,883</u>	<u>\$ (8,858)</u>	<u>\$ 4,135,352</u>	<u>\$ 4,135,352</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Pool's policy for managing interest rate risk is to comply with the State Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. The Pool manages its exposure to declines in fair value by investing in the Public Treasurers' Investment Fund (PTIF) and other securities and by adhering to the Act.

Following are the Pool's investments at December 31, 2016:

<u>Investment Type</u>	<u>Carrying Amount and Fair Value</u>	<u>Investment Maturities (in years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Debt securities:			
Corporate bonds	\$ 889,734	\$ 285,450	\$ 604,284
Mortgage backed securities	1,196,464	100,633	1,095,831
Total debt securities	<u>2,086,198</u>	<u>386,083</u>	<u>1,700,115</u>
Other investments:			
CRL equity	<u>2,049,154</u>		
Total Other Investments	<u>2,049,154</u>		
Total investments	<u>\$ 4,135,352</u>		

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 2- CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Investments' fair value measurements are as follows at December 31, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Asset class:				
Debt securities:				
Corporate bonds	\$ 889,733	\$ 889,733	\$ -	\$ -
Mortgage backed securities	1,196,464	1,196,464	-	-
Money market funds	36,261	-	36,261	-
Public Treasurers' Investment Fund	6,190,423	-	6,190,423	-
Total	<u>\$ 8,312,881</u>	<u>\$ 2,086,197</u>	<u>\$ 6,226,684</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Pool's policy for limiting the credit risk of investments is to comply with the State Money Management Act.

Investments are categorized into these three categories of credit risk:

- Category One - Insured or registered, or securities held by the Pool or its agent in the Pool's name.
- Category Two - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Pool's name.
- Category Three - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, not in the Pool's name.

As of December 31, 2016, investments in debt securities in the amount of \$2,306,393 are considered to be Category Three securities. As of December 31, 2016, Public Treasurers' Investment Fund (PTIF) investments and equity investments in County Reinsurance Limited (CRL), in the total amount of \$8,239,577, are uncategorized investments.

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 3- INVESTMENT INCOME

Investment income is comprised of the following as of December 31, 2016:

Investment income:

Bonds	\$ 27,753
Equity	234,996
Cash	<u>87,502</u>
Total investment income	<u><u>\$ 350,251</u></u>

Cash received:

Cash	<u>\$ 87,502</u>
Total cash received	87,502

Noncash adjustments:

Equity	234,996
Bonds	2,029
Change in accrued interest	20,555
Amortization	<u>5,169</u>
Total noncash adjustments	<u>262,749</u>
Total investment income	<u><u>\$ 350,251</u></u>

NOTE 4- INTEREST RATE

The interest rate for assets held with the Utah Public Treasurers' Investment Fund (PTIF) was 1.1077 percent as of December 31, 2016.

NOTE 5- CAPITAL ASSETS

The capital assets and related accumulated depreciation of the Pool are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets exempt from depreciation:				
Land	\$ 531,494	\$ -	\$ -	\$531,494
Total capital assets exempt from depreciation, net	<u>531,494</u>	<u>-</u>	<u>-</u>	<u>531,494</u>
Capital assets being depreciated:				
Office furniture and equipment	173,963	930	-	174,893
Total capital assets, being depreciated	<u>173,963</u>	<u>930</u>	<u>-</u>	<u>174,893</u>
Less accumulated depreciation for:				
Office furniture and equipment	(163,729)	(3,762)	-	(167,491)
Total accumulated depreciation	<u>(163,729)</u>	<u>(3,762)</u>	<u>-</u>	<u>(167,491)</u>
Total capital assets being depreciated, net	<u>10,234</u>	<u>(2,832)</u>	<u>-</u>	<u>7,402</u>
Total capital assets, net	<u><u>\$ 541,728</u></u>	<u><u>\$ (2,832)</u></u>	<u><u>\$ -</u></u>	<u><u>\$538,896</u></u>

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 6- REINSURANCE

Effective 2003, the Pool has purchased only specific excess coverage. The agreement provides for liability insurance in excess of a \$250,000 self-insured retention and property and crime insurance in excess of a \$250,000 self-insured retention.

Estimated claims loss liabilities of the Pool are stated net of estimated losses applicable to reinsurance coverage ceded to other insurance companies of \$718,509 as of December 31, 2016. However, the Pool is contingently liable for those amounts in the event such companies are unable to pay their portion of the claims.

Unsecured Reinsurance Recoverables

There are no letters of credit, trust agreements or funds withheld on reinsurance recoverables. The amount of \$578,922, as of December 31, 2016, exceeds three percent of the Pool's surplus and is considered unsecured recoverables on known claims.

Reinsurance Recoverable in Dispute

As of December 31, 2016, the Pool does not have any disputed balances or uncollectible funds.

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 7- RETIREMENT PLANS

Pension Plan

Plan Description. Eligible plan participants are provided with pensions through the Utah Retirement Systems. The Utah Retirement Systems are comprised of the following pension trust funds:

- Public Employees Noncontributory Retirement System (Noncontributory System) is a multiple employer, cost sharing, public employee retirement system.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) is a multiple employer, cost sharing, public employee retirement system.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees, beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah Code Annotated 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Utah State Retirement Board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds.

Utah Retirement Systems is a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms. Utah Retirement Systems issues a publicly available financial report that can be obtained by writing Utah Retirement Systems, 560 E 200 S, Salt Lake City, UT 84102 or visiting the website: www.urs.org.

Benefits Provided. Utah Retirement Systems provides retirement, disability, and death benefits. Refinement benefits are as follows:

System	Final Average Salary	Years of Service Required	Benefit Percent per Year of Service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

* With actuarial reductions

** All post-retirement cost of living adjustments are non-compounding and are based on the original benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 7 - RETIREMENT PLANS (CONTINUED)

Pension Plan (continued)

Contributions. As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Utah Retirement Systems Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of December 31, 2016 are as follows:

	<u>Employee</u>	<u>Employer</u>	<u>Employer 401(k)</u>
Contributory System			
111 - Local Governmental Division Tier 2	N/A	14.91	1.78
Noncontributory System			
15 - Local Governmental Division Tier 1	N/A	18.47	N/A
Tier 2 DC Only			
211 Local Governments	N/A	6.69	10.00

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans

For fiscal year ended December 31, 2016, the employer and employee contributions to the System were as follows:

<u>System</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>
Noncontributory System	\$64,862	N/A
Tier 2 Public Employees System	5,402	0
Total Contributions	<u>\$70,264</u>	<u>\$0</u>

Contributions reported are the Utah Retirement Systems Board approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems.

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 7 - RETIREMENT PLANS (CONTINUED)

Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, we reported a net pension asset of \$8 and a net pension liability of \$239,964.

(Measurement Date): December 31, 2015					
	Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share December 31, 2014	Change (Decrease)
Noncontributory System	\$0	\$239,964	0.0424078%	0.0418020%	0.0011276%
Tier 2 Public Employees System	8	0	0.0037343%	0.0039098%	(0.0001755)%
	<u>\$8</u>	<u>\$239,964</u>			

The net pension asset and liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2015 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended December 31, 2016 we recognized pension expense of \$53,227.

At December 31, 2016 we reported deferred outflows of resources and deferred inflows of resources relating to pensions for the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$10,902
Changes in assumptions	0	13,428
Net difference between projected and actual earnings on pension plan investments	81,247	0
Changes in proportion and differences between contributions and proportionate share of contributions	3,544	0
Contributions subsequent to the measurement date	70,264	0
	<u>155,055</u>	<u>24,330</u>

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 7 - RETIREMENT PLANS (CONTINUED)

Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The amount of \$70,264 was reported as deferred outflows of resources related to pensions results from contributions made by the Pool prior to fiscal year end, but subsequent to the measurement date of December 31, 2015.

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2016	\$13,788
2017	13,788
2018	14,024
2019	18,984
2020	(23)
Thereafter	(102)

Actuarial Assumptions. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.75 percent
Salary increases:	3.50-10.50 percent, average, including inflation
Investment rate of return:	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2015, valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class and is applied consistently to each defined benefit pension plan. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 7 - RETIREMENT PLANS (CONTINUED)

Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Asset Class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-term expected portfolio real rate of return
Equity securities	40%	7.06%	2.82%
Debt securities	20%	0.80%	0.16%
Real assets	13%	5.10%	0.66%
Private equity	9%	11.30%	1.02%
Absolute return	18%	3.15%	0.57%
Cash and equivalents	0%	0.00%	0.00%
Totals	100%		5.23%
		Inflation	2.75%
		Expected arithmetic nominal return	7.98%

The 7.50% assumed investment rate of return is comprised of an inflation rate of 2.75% and a real return of 4.75% that is net of investment expense.

Discount Rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the Utah Retirement Systems Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the Proportionate Share of the Net Pension Asset and Liability to Changes in the Discount Rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

System	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Noncontributory System	\$507,020	\$239,964	\$17,026
Tier 2 Public Employees System	1,495	(8)	(1,147)
Total	\$508,515	\$239,956	\$15,879

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 7 - RETIREMENT PLANS (CONTINUED)

Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Utah Retirement Systems financial report.

Defined Contribution Savings Plans

The Defined Contribution Savings Plans are administered by the Utah Retirement Systems Board and are generally supplemental plans to the basic retirement benefits of the Retirement Systems, but may also be used as a primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 457(b) and 408 of the Internal Revenue code. Detailed information regarding plan provisions is available in the separately issued Utah Retirement Systems financial report.

The Pool participates in the 401(k) Defined Contribution Savings Plan with the Utah Retirement Systems.

Employee and employer contributions to the Utah Retirement Defined Contribution Savings Plans for the fiscal year ended December 31, was follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer Contributions	\$5,507	\$5,507	\$4,420
Employee Contributions	16,157	16,327	15,172

Defined Contribution 401(k) Plan

The Pool is required to contribute 1.78 percent of covered salary to the Noncontributory System Tier 2 Fund 401(k) plan (administered by the Utah State Retirement Systems). The total Tier 2 Fund retirement expense for the Pool for the years ending December 31, 2016, 2015 and 2014 was \$825, \$1,529 and \$345, respectively.

Employer Participating Retirement Plans

The Pool contributes an amount equal to the amount contributed by the employee into a 401(k) plan (administered by the Utah State Retirement Systems) and/or a 457 plan (administered by Nationwide Retirement Solutions), not to exceed five percent of the employee's eligible payroll. The total retirement expense for the Pool as of December 31, 2016, 2015, and 2014 was \$17,150, \$15,641 and \$14,722, respectively.

UTAH COUNTIES INDEMNITY POOL

Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 8- UNPAID CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES

Reserves for incurred losses and loss adjustment expenses attributable to covered events of prior years has decreased by \$295,683 in 2016 as a result of re-estimation of unpaid losses and loss adjustment expenses. This change is the result of ongoing analysis of recent loss development trends. Original estimates change as additional information becomes known regarding individual claims.

The unpaid claims, losses and loss adjustment expenses of the Pool as of December 31, 2016 are:

	<u>2016</u>
Beginning balance	\$ 8,185,675
Incurred loss:	
Current year	3,273,064
Prior years	<u>(900,289)</u>
Change in total incurred	<u>2,372,775</u>
Paid:	
Current year	832,886
Prior years	<u>\$1,835,572</u>
Total paid	<u>2,668,458</u>
Balance at December 31	<u><u>\$ 7,889,992</u></u>

NOTE 9- OPERATING LEASE COMMITMENT

On September 4, 2008, the Pool entered into a seven year commitment to lease office space. The lease commenced in February 2009 at which time the Pool occupied the premises. The Pool paid \$10,483 as of December 31, 2016. There are no future rental commitments for the building operating lease.

NOTE 10- CONTINGENCIES

The Pool is subject to litigation from the settlement of claims contested in the normal course of business. The losses from the actual settlement of such unknown claims are taken into consideration in the computation of the estimated unpaid loss and loss adjustment expense liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

UTAH COUNTIES INDEMNITY POOL

Schedule of Ten-Year Claims Development Information

The following table illustrates how the Pool's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Pool as of the end of each of the past ten years. The rows of the table are defined as follows: (1) This line shows each fiscal year's net earned premiums, other operating revenues and interest income. (2) This line shows each year's other operating expenses including overhead and loss adjustment expenses not allocable to specific claims. (3) This line shows incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. (4) This section of ten rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This section of ten rows shows how each policy year's net incurred claims increased or decreased as of the end of the successive years: this annual estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and show whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Fiscal and Policy Year Ended (in Thousands of Dollars)										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
(1) Earned premiums, other operating operating revenues and investment revenues, net of reinsurance	12,433	16,116	6,952	4,662	5,064	5,141	3,538	3,717	3,789	4,584
(2) Unallocated expense	-	-	-	-	-	-	-	-	-	-
(3) Estimated incurred claims and expenses, end of policy year:	2,810	2,772	2,881	2,876	3,129	3,619	3,152	3,666	3,066	3,273
(4) Net paid (cumulative) as of:										
End of policy year	1,332	1,302	1,126	584	995	347	586	1,344	894	-
One year later	2,296	2,076	1,246	932	1,542	1,538	1,377	1,549	-	-
Two years later	3,103	1,640	1,781	1,601	1,719	2,310	1,869	-	-	-
Three years later	2,202	2,249	2,142	2,500	2,153	2,637	-	-	-	-
Four years later	2,273	2,666	1,465	2,958	2,385	-	-	-	-	-
Five years later	2,366	2,908	3,654	3,256	-	-	-	-	-	-
Six years later	2,478	3,045	2,815	-	-	-	-	-	-	-
Seven years later	2,506	3,085	-	-	-	-	-	-	-	-
Eight years later	2,545	-	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-	-	-
(5) Reestimated net incurred claims and expenses:										
End of policy year	2,810	2,772	2,887	2,876	3,129	3,619	3,152	3,666	3,066	3,273
One year later	3,216	2,631	2,748	3,188	3,472	4,246	3,907	3,627	2,781	-
Two years later	2,978	2,704	2,902	3,113	3,193	3,837	3,515	3,565	-	-
Three years later	2,751	2,771	2,789	3,612	3,080	3,650	3,169	-	-	-
Four years later	2,524	3,142	3,164	3,714	2,952	3,524	-	-	-	-
Five years later	2,544	3,143	3,059	3,570	2,991	-	-	-	-	-
Six years later	2,620	3,180	2,947	3,464	-	-	-	-	-	-
Seven years later	2,585	3,207	2,948	-	-	-	-	-	-	-
Eight years later	2,594	3,205	-	-	-	-	-	-	-	-
Nine years later	2,587	-	-	-	-	-	-	-	-	-
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(223)	433	61	588	(138)	(95)	17	(101)	(285)	-

UTAH COUNTIES INDEMNITY POOL
Schedule of the Proportionate Share of the Net Pension Liability

The proportionate share of the Net Pension Liability (Asset) of the Pool for year ending December 31, 2016 and 2015 respectively is as follows:

	2016		2015	
	Noncontributory	Tier 2 Public	Noncontributory	Tier 2 Public
	Retirement	Employees	Retirement	Employees
	System	Retirement	System	Retirement
	System	System	System	System
Proportion of the net pension liability (asset)	0.0424078%	0.0037343%	0.0412802%	0.0039098%
Proportionate share of the net pension liability (asset)	\$239,964	(\$8)	\$179,248	(\$118)
Covered payroll	\$369,111	\$24,123	\$355,770	\$19,365
Proportionate share of the net pension liability (asset)				
as a percentage of its covered-employee payroll	65.01%	(0.03)%	50.40%	(0.60)%
Plan fiduciary net position as a percentage				
of its covered-employee payroll	87.80%	100.20%	90.20%	103.50%

*In accordance with paragraph 81a of GASB Statement No. 68, employers will need to disclose a 10-year history of their proportionate share of the Net Pension Liability (Asset). The Pool's 10-year schedule will be built prospectively. The schedule above is for the past two years.

UTAH COUNTIES INDEMNITY POOL

Schedule of Contributions

The following presents the contributions as a percentage of covered-payroll for the Pool as of year ending December 31, 2016:

	As of Fiscal year ended December 31,	Actuarial Determined Contributions	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered employee payroll
Noncontributory System	2014	\$63,601	\$63,601	\$0	355,770	17.88%
	2015	68,175	68,175	0	369,111	18.47%
	2016	64,862	64,862	0	351,175	18.47%
Tier 2 Public Employees System*	2014	2,893	2,893	0	19,365	14.94%
	2015	3,600	3,600	0	24,123	14.92%
	2016	5,402	5,402	0	36,228	14.91%

* Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems.
Tier 2 systems were created effective July 1, 2011.

Paragraph 81.b of GASB 68 requires employers to disclose a 10-year history of contributions in RSI. Contributions as a percentage of covered-payroll may be difference than the board certified rate due to rounding and other administrative issues. The schedule above is for the past two years.

UTAH COUNTIES INDEMNITY POOL

Notes to Required Supplementary Information

Changes in Assumptions

The following assumption changes were adopted from the most recent actuarial experience study. There was a decrease in the wage inflation assumption of all employee groups from 3.75% to 3.50%. Also, there was a modification to the rate of salary increases for most groups. The payroll growth assumption was decreased from 3.50% to 3.25%. There was an improvement in the post retirement mortality assumption for female educators and minor adjustments to the preretirement mortality assumption.

There were additional changes to certain demographic assumptions that generally resulted in: (1) more members are anticipated to terminate employment prior to retirement, (2) slightly fewer members are expected to become disabled, and (3) members are expected to retire at a slightly later age.

OTHER INDEPENDENT AUDITOR'S REPORTS

**Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With
Government Auditing Standards**

The Board of Directors
Utah Counties Indemnity Pool

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pool, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated April 20, 2017

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pool's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Larsen & Company P.C.

Salt Lake City, Utah
April 20, 2017

Independent Auditor's Report as Required by the *State Compliance*
Audit Guide on Compliance with General State Compliance
Requirements and Internal Controls over Compliance

The Board of Directors
Utah Counties Indemnity Pool

Report on Compliance with General State Compliance Requirements

We have audited **Utah Counties Indemnity Pool's** compliance with the applicable general state program compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor that could have a direct and material effect on **Utah Counties Indemnity Pool** for the year ended December 31, 2016.

General state compliance requirements were tested for the year ended December 31, 2016 in the following areas:

Budgetary Compliance
Utah Retirement Systems
Open and Public Meetings Act
Treasurer's Bond
Cash Management

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on **Utah Counties Indemnity Pool's** compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*.

Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on **Utah Counties Indemnity Pool**. An audit includes examining, on a test basis, evidence about the **Utah Counties Indemnity Pool** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with general state compliance requirements. However, our audit does not provide a legal determination of **Utah Counties Indemnity Pool's** compliance.

Opinion on General State Compliance Requirements

In our opinion, **Utah Counties Indemnity Pool**, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on **Utah Counties Indemnity Pool** for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance.

Report on Internal Control over Compliance

Management of **Utah Counties Indemnity Pool** is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Utah Counties Indemnity Pool's** internal control over compliance with the compliance requirements that could have a direct and material effect on **Utah Counties Indemnity Pool** to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and for each major state program and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of **Utah Counties Indemnity Pool's** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a general state or major state program compliance requirement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with general state or major state program compliance requirements that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on the requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Larsen & Company P.C.